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STATUS OF AMERICAN FOREIGN FOOD ASSISTANCE PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL RESEARCH, CONSERVATION, FORESTRY, AND GENERAL LEGISLATION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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THURSDAY, FEBRUARY 5, 1987

U.S. SENATE, SUBCOMMITTEE ON AGRICULTURAL RESEARCH, CONSERVATION, FORESTRY, AND GENERAL LEGISLATION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,

Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting statements: Senators Melcher, Heflin, Bond, and Wilson.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order. This morning we are holding the first of a series of hearings to be held throughout this year and perhaps throughout this Congress. The hearings will address the subject of increasing agricultural exports. We didn't need the 1985 farm bill to tell us that unless there was a reversal of the downward trend in agricultural exports, the only option that Congress and the country would have would be to start a chain reaction of limiting of production of farm commodities. The 1985 act set the course, approved by both Congress and the President, to have fairly high levels of production. I'm speaking primarily at this time of wheat, feedgrains, soybeans, and rice—I've left out cotton and milk, and we'll probably be talking at least about milk.

But I think primarily this morning we will be discussing those commodities which I first named.

For every bushel of wheat that is harvested in the United States, used for ourselves, we harvest another three bushels that are destined only for export. Generally speaking, for every four bushels of corn that are harvested, three may be used domestically and one is destined for export. In each instance, wheat and corn, we are speaking about an export level that is somewhere above a billion bushels. Most years with wheat we are probably seeking to export about 1.6 or 1.7 billion bushels. Likewise in corn in most years we are seeking to export from each year's crop 2 billion bushels.

The administration and a lot of other people have spoken of the falling dollar being the correction. Sure, exports are declining; if the dollar got cheaper, automatically exports would pick up. The

dollar has gotten cheaper against the yen, the Deutschemark, the French franc, and other currencies. But what has it meant. It's meant very little. West Germany isn't going to expand their imports of American farm commodities—they are part of the Common Market. France the same. The Japanese have a very highly protective policy on importing American farm commodities; they don't use much wheat at all, so they probably hold up the same amount of wheat that they import from the United States, whatever their needs are, regardless of where the yen is in comparison to the American dollar. The Japanese are highly protective of how much feedgrains they are going to import, how many chickens, how much beef, how much pork.

What I'm saying is that the dollar's decline in value relative to the yen and the Deutschemark and the franc does not guarantee the export of more American farm commodities.

If we are going to change this downward decline year after year in our farm commodity exports, we have to face reality—and reality is that many of the customers for American farm commodities are in developing countries. Some of the other customers for American farm commodities are in the Soviet bloc or communist countries, socialistic countries, where the amount to be purchased from a country such as ours is determined simply on the basis of what the central government decides, not on the value of the dollar.

I want to dwell today primarily on the developing countries. There's been traditionally over the past 10 years somewhere between 50 and 70 developing countries that import American farm commodities, such as wheat or soybeans or corn. In most cases they've done so with some concessions from us—sales, through GSM-102 or GSM-104, based on long-term credit—don't pay it all this year, stretch it out over a period of years—and low interest rates. Many of these countries have received donations of our surplus commodities either through P.L. 480 or other programs like P.L. 480.

The 1985 farm bill greatly broadened the options available to the Secretary of Agriculture for meeting the needs of individual countries with our surplus commodities.

Some of those programs haven't yet been utilized. Section 416 is one of those programs that was greatly broadened in the 1985 act, but it had already been broadened 2 or 3 years prior to 1985 to permit easier exporting of surplus commodities.

Part of what is necessary to determine which countries can utilize section 416 is a country-specific team of Americans, working for the United States, that could, because they are right there, understand the needs and the make-up politically, socially and economically of a particular country. Those teams are already in place under the Secretary of State and the Agency for International Development.

Recognizing that, the Secretary of Agriculture and the Secretary of State designated the State Department and AID as the primary people to handle section 416.

I understand the practicality of that. The counterpart to AID within the Department of Agriculture is the Foreign Agricultural Service. The Foreign Agricultural Service has a very limited number of employees who are by and large very sound, practical,

and experienced employees. Those who are stationed in various countries to enhance and expedite the exports of American farm commodities are so limited in number that they don't have the capability to do all the necessary work with section 416 in particular countries. So it was a practical solution—on paper. It's been highly impractical in operation.

AID people in various countries were completely bereft of any knowledge of section 416. And, as a result, they never utilized it. I don't know if there has been a significant shipment under section 416 during the past 12 months. And the direction from the Secretary of State and from the head of the Agency of International Development has been less than forceful. I think that's begun to change in the past several months. AID missions are being now instructed as to what section 416 is and why it's needed.

So this morning we are going to hear from two witnesses, Tom Kay, the Administrator of the Foreign Agricultural Service, and Dr. Duane Acker, who is the Agency Director for Food and Agriculture, Agency for International Development.

Before we get into that, Senator Bond, do you have any comments you'd like to make?

STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you, Mr. Chairman, it's a real privilege and pleasure for me to serve with you on this subcommittee. It's an area of great interest of mine, and I would say that, while I am brand new on this subcommittee, I have had in my previous incarnation as a State chief executive an opportunity to work in a number of countries around the world with representatives of the FAS. I'd like to say that we were extremely impressed with and very grateful for the assistance that was given to us and our delegation of Missouri farmers and agribusiness people in setting up sales of food abroad. We found tremendous opportunities, and we think those still exist, and we are interested in selling raw commodities and value-added food products abroad. I would say that I have been most grateful for the assistance and I would be interested to hear if there are additional ways in which we can expand and improve upon that service.

Thank you, Mr. Chairman.

Senator MELCHER. Tom, why don't you proceed now. I know you are accompanied by George Pope and Mary Chambliss, and, if you would like to have them sit at the witness table, we'd be pleased to have them do so.

Mr. KAY. It's better than being here all alone, Senator.

Senator MELCHER. You need all the help you can get.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, ACCOMPANIED BY GEORGE POPE, ASSISTANT GENERAL SALES MANAGER, AND MARY CHAMBLISS, DIRECTOR, PROGRAM ANALYSIS DIVISION

Mr. KAY. I'm the first to recognize that, Senator.

Mr. Chairman, Senator Bond, it's a pleasure to be here today, and I appreciate the kind words that both of you have had to say

about the Foreign Agricultural Service, and we shall strive to live up to our reputation.

In the past decade there has been substantial progress in alleviating world food problems. Overall, annual global food production increases have been running slightly ahead of the population rate for the past 10 years. Africa—in particular, the sub-Sahara—is the only region where this has not been the case.

Though the food assistance needs of sub-Saharan Africa are still large, Africa's food situation has shown substantial improvement since 1985, when sub-Saharan Africa was seriously affected by drought and famine. The United States responded to the region's food crisis in that year by providing 3 million metric tons of food assistance. These commodities and required transportation costs totaled nearly $1.1 billion. U.S. food assistance to sub-Saharan Africa under P.L. 480 and section 416(b) in fiscal 1986 amounted to an estimated $360 million. In fiscal 1987 regular P.L. 480 food aid to sub-Saharan Africa is projected at almost $240 million. Additional section 416(b) aid and unforeseen emergency requests might require another $70 million.

With world food output and population growing at nearly the same rate, income growth, as well as storage and distribution systems, are key factors in meeting food needs. We continue to work with the Agency for International Development on ways of addressing the long-term economic development problems in Africa through Public Law 480 and technical assistance. The 1985 farm bill includes a number of provisions to assist us in this, such as the Food for Progress program which is aimed at implementing needed agricultural policy reforms, and the Local Currency Loan Initiative, whose goal is to enhance private sector development. We are using the section 416(b) authority to help support more immediate humanitarian and development needs.

As a leader in agricultural production, the United States has long recognized its responsibility to help end world hunger. The United States is the world's largest food donor, providing this aid generally through the Public Law 480 authorities. Under this program, we have provided almost $38 billion in food assistance to over 100 countries during the past 32 years. That is more than the amount supplied by all other donor nations combined—and we will continue to play this role.

However, we recognize that increased food security for the world in the long run depends not only on the assistance the United States and others provide, but rather on economic development, both within and across nations. Countries stand to gain most from pursuing self-reliance strategies in a global environment which provides both well-functioning international food markets, and opportunities for growth of trade between developed and developing countries.

Trade gains may not, in and of themselves, increase the purchasing power for poorer people within countries. However, narrowly based national development strategies which exclude significant portions of the population from employment and earned income, or which fail to promote the private sector, will perpetuate undernutrition. This can happen even when there is substantial national growth in income, trade and food availability. Food security at the

household and national level depends ultimately on widely shared economic growth. Our food assistance efforts increasingly reflect that fact.

While never losing sight of the long-term goal of economic development, we also continue our traditional humanitarian response to emergency needs. The donation program under Title II of P.L. 480 is one of the tools most frequently used to relieve emergency food requirements arising from natural disasters, such as droughts or floods, or manmade disasters. Title II can also be used to relieve chronic, long-term food shortages. A large portion, generally over 60 percent, of Title II food assistance moves through U.S. private voluntary organizations. The World Food Program is another major user of Title II resources.

In fiscal 1986, we programmed the full amount of assistance available under Title II, $758 million. In all we donated 2.3 million metric tons, on a grain-equivalent basis, of commodities valued at nearly $441 million to 65 countries. Among the major items donated under the program were wheat, corn-soy-milk, grain sorghum, bulgur, vegetable oil, nonfat dry milk, and corn.

The fiscal 1987 Title II program level, at $534 million, can provide over two million metric tons, on a grain-equivalent basis, of food donations. We are requesting a similar Title II level for fiscal 1988.

We also have other programs through which we can provide both emergency and developmental food aid, including section 416(b) and the Food for Progress program.

Section 416(b) of the Agricultural Act of 1949, as amended by the Food Security Act of 1985, permits us to donate edible commodities held in stock by the Commodity Credit Corporation. In fiscal 1986, agreements to provide over 300,000 tons of CCC commodities valued at almost $300 million were signed under this authority.

In fiscal 1987, the Commodity Credit Corporation has made available 500,000 tons of oilseeds and grains and 150,000 tons of dairy products for shipment to needy countries under section 416(b) in compliance with 1985 farm bill provisions. We have already entered into agreements for almost 500,000 tons this year, including agreements for Food for Progress programs with Madagascar and Guinea. If necessary, we will increase the availabilities for this program.

Section 416(b) is also being used to assist sugar exporting countries which have been hurt by the reductions we have had to make in U.S. sugar quotas in order to comply with the 1985 farm bill. As of this time, 30 countries are eligible to receive commodities from CCC stocks under section 416(b) for this purpose. The value of this offer made during fiscal 1986 totaled $101 million. Agreements with 13 of these countries have been fully implemented, with signings taking place weekly.

In December 1986 a second offer of section 416(b) aid for sugar quota countries, with a total value of $190 million, was made by the Secretary of Agriculture. Guidelines for this program will be sent to the 30 eligible countries in the near future. The major potential recipients of this second offer are the Dominican Republic at $46.3 million, the Philippines at $32.8 million, Guatemala at $12.6 million, and Peru at $10.8 million.

Under the Food for Progress program, U.S. agricultural commodities are provided to developing countries that will work to implement agricultural policy reforms. Commodities provided under the program would be in addition to any assistance a country normally receives from the United States.

Commodities may be made available for use in this program under the authority of either section 416(b) of the Agricultural Act of 1949 or Title I of P.L. 480. In fiscal 1986 we signed agreements with Madagascar and Guinea, which provided 60,000 tons of section 416(b) rice, with shipments taking place in both fiscal 1986 and 1987.

We currently are working with 10 to 15 other countries which have expressed an interest in the program for fiscal 1987 to develop additional programs with this authority. Among the interested countries are Senegal, Guinea, Madagascar, and Kenya. All proposals which are received are reviewed by the Food Aid Subcommittee to assure compliance with the objectives of the program.

A particularly striking example of the viable use of these programs occurs in the Philippines.

The U.S. Government has discussed with the government of the Philippines our desire to provide assistance as needed, under both P.L. 480 and section 416(b), during this difficult period. We are continuing to work closely with the Philippine government in regard to that country's needs. In fiscal 1986, the United States provided $43.5 million in food assistance to the Philippines, including $35 million in Title I/III assistance and $8.5 million in Title II assistance. More recently we entered into a section 416(b) agreement to provide 128,500 tons of wheat.

Finally, we continue to have available four million tons of wheat in the Food Security Wheat Reserve to back up the P.L. 480 program. This reserve assures the availability of wheat—one of the world's basic food grains—for the P.L. 480 program even when domestic supplies are limited.

Specifically for emergency needs, we are permitted to use up to 300,000 tons of the wheat reserve in any fiscal year to provide urgent humanitarian relief to any developing country suffering a major disaster when wheat could not otherwise be made available in a timely manner. During fiscal 1985, wheat from the reserve was used extensively to help meet the African famine needs; the quantity used has been replenished and is available again if needed.

The real solution to the world's food problem lies not in short-term food aid but in long-term economic development. We are concentrating the bulk of our food assistance on programs which spur economic productivity and improve the infrastructure needed to move agricultural product efficiently in developing countries.

The P.L. 480 concessional credit program under Title I is a major tool we use in accomplishing these goals. Over the past 32 years this program has proven effective in promoting economic development abroad and thereby creating commercial markets for U.S. farm products. We also carry out Food for Development activities under Title III.

In fiscal 1986 we signed agreements under the P.L. 480 Title I/III program with 33 countries for a total commodity value of $872 million. This fully used our available program authority. Sales regis-

tered during this year were for slightly over 6 millions tons. Major commodities exported under the program included wheat, wheat flour, corn, rice, vegetable oil, tallow, and cotton.

For fiscal 1987, the commodity funding for Title I/III programs is nearly $827 million, which should provide long-term concessional financing for over 6 million metric tons of agricultural commodity exports. Agreements are in effect with 10 countries at this time, including several which involve the new local currency loan provisions.

For fiscal 1988 we have requested a total P.L. 480 Title I/III budget of $852 million, which will provide long-term concessional financing for approximately 6 million metric tons of agricultural commodity exports. This will allow us to maintain the program at a level well above that of the early 1980's.

To further encourage economic development overseas, two additional assistance programs were added to our roster of food aid programs last year. These two programs were Food for Progress, which I discussed earlier, and the Local Currency Loan Initiative.

The Local Currency Loan Initiative of P.L. 480 is aimed at supporting economic growth by promoting the role of the private sector in the recipient countries. To achieve this goal, sales of U.S. farm products for local currency have been reinstated. These local currencies, which are owned by the U.S. Government, will be loaned to private financial institutions in Title I countries, which will then relend them to the local private sector.

Guidelines for this program have been developed and the first agreement to include local currency was signed with Sri Lanka last November. In all, we have now signed agreements including $14 million in local currency financing with four countries—Sri Lanka, Costa Rica, Jamaica, and Tunisia. We anticipate further expansion of the program to such countries as Morocco, Kenya, the Dominican Republic, and Indonesia.

The administration is committed to promoting greater food security around the world. We stand ready to provide short-term food relief when emergencies occur. However, we recognize that in the long term, the world's food security rests on achieving greater productivity in the developing world. As a consequence, we are giving developmental assistance greater priority in our food aid programs.

Mr. Chairman, that concludes my statement. We'll be happy to answer any questions you may have.

Senator MELCHER. Tom, I think you are aware that myself and other members of this committee who happen to be Democrats are most anxious to assist this administration in developing the political and business climate which will allow you to get out of this rut of declining exports of agricultural commodities.

So I assume you count that as one of your blessings, right?

Mr. KAY. Indeed I do, sir. As I said awhile ago, I need all the help I can get.

Senator MELCHER. Despite what happened in the White House and here in Congress concerning the Iranian/contra debacle, despite whatever attention might have to be paid to that debacle by the White House or the cabinet members and Members of Congress, we have got to do something constructive for the country as a whole in turning this export situation around.

I want to tell you, I fully realize how difficult it is for even cabinet officials to get the necessary procedures accomplished while the attention of so many people in government is focused on the Iranian/contra problem.

So, keeping that in mind, let me point out what you have just stated—first of all, that world food needs when you add everthing up, are pretty well balanced. However, I don't think you'll disagree that in country after country, the many people who are economically depressed do not have a sufficient amount of food. So that's where we come in.

What is your feeling on using our surplus commodities to meet these needs, in such amounts that it would cause the world price to level off instead of the present continuing decline?

Mr. KAY. Senator, we certainly have no difference insofar as using our surplus commodities to alleviate hunger in the traditional humanitarian sense and, at the same, in keeping with the original purpose of P.L. 480, to assist in our disposal of surplus stocks. We do, however, feel that there is in all countries a certain saturation point and any virtue can at times be carried to the extreme.

If, in the shipping of our surplus commodities, we bring about a disincentive for their own purpose and for their own farmers, then in some respects we could do as much harm as we do good.

Senator MELCHER. I understand that, but that's going to be up to the countries themselves to say how much they can utilize, is it not?

Mr. KAY. That's correct.

Senator MELCHER. All right, let's go to some of these countries, then. Nigeria. What's the status in Nigeria? You know, you and I spoke just before Christmas about the fact that you were engaged in a proposal on, what was it, GSM-102 or 104?

Mr. KAY. We have offered GSM-102 to Nigeria and we have also announced an export enhancement program for Nigeria. The wheat millers, the flour millers, came to see us, and on the first instance said they would begin to buy U.S. wheat if we offered GSM-102, which we did.

The second time they came they said we must, in addition to GSM-102, have an export enhancement program. We worked hard, as you know, and accomplished both. We have announced GSM-102 and the export enhancement program. I think the export enhancement program, if I remember, for wheat is 500,000 tons, not as much as I had hoped for initially, but at least it's a beginning. We also have announced an EEP for barley malt into Nigeria. They have bought barley malt. So far they have not bought wheat, but the programs are there for them.

Senator MELCHER. How much export enhancement for the barley malt?

Mr. KAY. George, do you remember the figures on barley malt?

Mr. POPE. It's around 100,000 tons and they have been buying it, small tranches at a time, about 15,000 or 20,000 tons. The sales are proceeding.

Senator MELCHER. Well, what you'd like to have is an arrangement using export enhancement, GSM-102, or any combination of any of these programs that would total over a million tons for Nigeria.

Mr. KAY. That's been the traditional market, yes.

Senator MELCHER. And that's just for wheat.

Mr. KAY. Yes.

Senator MELCHER. So right now, on export enhancement for wheat, we are offering just 500,000 tons.

Mr. KAY. Well, the ceiling was, if I understand it correctly, that we would offer five, then if there is an opportunity for more we will go back to the drawing board.

Senator MELCHER. This is a country where we have lost the traditional sales of a million tons of wheat over the past several years. We haven't sold them any wheat for 2 years, is that correct?

Mr. KAY. Approximately two, yes.

Senator MELCHER. This would be a step back of regaining part of that.

Mr. KAY. They did buy U.S. wheat under the Export-Import Bank where they had, I believe, a 12-month credit period.

Senator MELCHER. That was prior to 1985.

Mr. KAY. Yes.

Senator MELCHER. So we are back at least on a playing field where we are dealing with Nigeria.

Mr. KAY. That's correct, yes, sir.

Senator MELCHER. You mentioned that 124,000 tons would go to the Philippines under some program for wheat.

Mr. KAY. Yes, that was the 128,000 tons which they have accepted under the sugar compensation program of section 416.

Senator MELCHER. That's old stuff, then; let's get into new stuff.

Mr. KAY. Well, that was the first sugar compensation announced last year; they finally signed up for it in December. The first shipments began in January. They have asked for January, February, and March shipments. They are now eligible, of course, for some more under the sugar compensation program, under section 416. In addition to that, we have, to meet the needs in some of the islands, as you know, where they've had difficulties with malnutrition and hunger—we have given Title II of some $10 million. That's been signed and agreed to.

And, as you know, Senator, we suggested an export enhancement program for the Philippines, and it was the decision of the administration that rather than charge them anything we had rather make it all concessional and do it under Title II, and perhaps under section 206 of Title II, which would enable us not only to donate the commodities but to pay for the transportation. And when you add together——

Senator MELCHER. Who's "we"?

Mr. KAY. That's the United States Government.

Senator MELCHER. And "we" was primarily the State Department in this decision?

Mr. KAY. No, it was not primarily the State Department. It was basically the decision of the Trade Policy Review Group made up of all agencies in the Federal Government.

Senator MELCHER. Well, let's return to the middle of December when you told me in my office you would use export enhancement to move 400,000 tons of wheat. You said you would drop it in the State Department's lap, which you did. They thought perhaps they would have a turnaround of five working days, which they didn't.

Are you going to sit here now and tell me that we have twisted around the sale of 400,000 tons of wheat into something which may or may not be a sale and which may or may not address the problem of the Philippines purchasing wheat from Canada for the first time in 10 or 12 years?

Mr. KAY. Well, Senator, I'm not twisting anything, but I am saying to you that, as you well know, after the privatization took place of the milling industry in the Philippines, they have complained that they can buy wheat more cheaply commercially than they can get wheat from their own government that we give to them free. Now, what that problem is I don't know, but I want to find out. The ambassador is coming in to see us next week, and I want to ask him if that is indeed true, and, if it is true, why it's true.

I suspect that——

Senator MELCHER. What does Veryl Lanier out there say about this?

Mr. KAY. Well, I have talked to Veryl and Veryl says, yes, that's true.

Senator MELCHER. For the record, Veryl Lanier is the FAS employee in Manila. He says yes that's true.

All right, let me tell you that, while I'm willing, and I assume other Democrats on this committee and throughout the Senate are willing to cooperate in every way possible with this administration on getting out of this mess we are in concerning declining exports, we expect positive action, and not indecision. It's very difficult to work through three or four different departments. Section 416, export enhancement, and some of these other programs, were by law under the direction of the Secretary of Agriculture.

Mr. KAY. Well, Senator, let me remind you of one thing, that in 1982, when section 416 gained greater permanence, that it was written into the law that we had to use the same process under section 416 that we used under P.L. 480, which is the Food Aid Subcommittee Group.

Senator MELCHER. You mentioned the first correction, then. You haven't suggested it, except by inference. We need some legislative correction, is that right?

Mr. KAY. That might well be worth looking at, yes, sir.

Senator MELCHER. First of all, you are aware of a bill I introduced—and I think several others have introduced similar bills—to upgrade the Foreign Agricultural Service, by at least doubling the number of employees, and allowing for—I think the right term is "contracting," is that right?

Mr. KAY. Contracting out, yes.

Senator MELCHER. Contracting out to do a very practical thing: to gain the assistance of people on the ground, in the country, to work with the Foreign Agricultural Service employees to expedite these sales, donations, shipments, and mixed breed donation and sale. So that's legislative.

But expanding the Foreign Agricultural Service is going to take us at least 2 or 3 years to get it in place and into operation, so we can't look to that. We have to do something this year. My guess is, in order to at least stabilize the price of wheat during this calendar year, we are going to have to dispose of 10, 12, or 15 million metric

tons more than what we disposed of last year. Maybe we can accomplish that with a simple combination of various programs of donation and sale.

I'm very alert to what may need to be done immediately to accomplish that legislatively. What is the name of this committee that you just mentioned?

Mr. KAY. I mentioned two, the Food Aid Subcommittee Group and the Trade Policy Review Group.

Senator MELCHER. Two groups, composed of several different representatives from various departments.

Mr. KAY. That's correct.

Senator MELCHER. The Department of State is always represented?

Mr. KAY. Yes.

Senator MELCHER. And Commerce?

Mr. KAY. Commerce, Treasury, and OMB.

Senator MELCHER. Treasury is always in there.

Mr. KAY. OMB.

Senator MELCHER. OMB is always in there.

Mr. KAY. National Security Council, Council of Economic Advisers.

Senator MELCHER. Good luck, good luck.

Mr. KAY. As well as USTR.

Senator MELCHER. Now, that is a pure recipe for doing nothing, and that's exactly where we're at—we are doing nothing. I have rather strong language that I could use, but it wouldn't look very good on the record.

Mr. KAY. I've used some of it before myself, Senator.

Senator MELCHER. I'm ready to repeat it any time. The farmers producing this stuff, and agribusiness, whether it's a grain elevator or a railroad or a mill that processes this stuff—could hardly care less what we've got in law. What they want to know is: does it work or doesn't it work? They are finding out that it does not work.

Now, rather than having us continue to look like a group of pure incompetents here in Washington, I want to see this changed, and if there's a legislative need I am ready to do it and I am ready to pressure this subcommittee and the full committee and the entire Senate and the entire House to face up to it, and to either vote yes or no on proposals to straighten it out.

I'm developing a much broader bill, Tom, than just expanding FAS. I'm developing a bill that will cut the red tape and mandate action. We've mandated action in the 1985 farm bill in several instances, and have found out that the mandates aren't strong enough to avoid this interdepartmental morass where, unless everybody happens to agree on a particular proposition at the same time on the same day, nothing happens. We've got so many different countries to deal with and so many different sales or combination of sales and donations that are necessary if we are actually going to get the exports moving, that we simply don't have any time to waste.

Mr. KAY. Sometimes we win, Senator, sometimes we lose, as you could well imagine.

Senator MELCHER. You mean the Department of Agriculture.

Mr. KAY. In the proposals that we make.

Senator MELCHER. You do mean Agriculture and FAS by "we" in that instance.

Mr. KAY. Yes. We did win on China.

Senator MELCHER. I was going to ask you about China. What are you going to do with China?

Mr. KAY. Well, it's our intention to sell them a million metric tons of wheat under the export enhancement program.

Senator MELCHER. Well, you've won on intentions. Now, when are you going to win on actuality? When are they going to load the boats?

Mr. KAY. We talked with the representatives from Ceroilfoods in New York, after we returned from China, about the export enhancement program. Then after returning home they cabled us saying they would buy. The representatives were in my office earlier this week and indicated that they would soon be tendering for wheat.

Senator MELCHER. Well, we are talking about a signed deal, then, perhaps within 30 days?

Mr. KAY. It would be my hope that some action on that would occur before 30 days.

Senator MELCHER. Much less than the normal 30 days. How about India?

Mr. KAY. We still have a Title II program with India, Mr. Chairman, I believe. And we have had a small soybean-oil export enhancement program of some 25,000 metric tons to India. But, as you know, India, having graduated from our P.L. 480 program, is now an exporter of wheat—and rice, if I remember correctly—rather than an importer.

Senator MELCHER. Let's go into that. How much wheat do they produce?

Mr. KAY. I'll have to furnish that for the record, Senator; I'm not sure.

Senator MELCHER. Do you know how much they've exported?

Mr. KAY. I'll have to give you that for the record, too, Senator.

Senator MELCHER. Let me say for the record that it's a small amount, that it was done to get hard dollars, hard currency, that the nutritional level for the 800 million people that live in India is still sub-standard. Does anybody argue over that?

Mr. KAY. Well, I wouldn't argue over that, Senator, that's certainly true. But when you talk with the representatives of the Indian government, they take great pride in saying that they are self-sufficient and that they don't need any imports.

Senator MELCHER. Well, I'm all for them saying anything they want. Let's get to the point of P.L. 480. You say they are not on the list any more. What's necessary to put them back on the list?

Mr. KAY. They have to ask, and then, of course, we are also limited by income; they would fall within the poverty limit.

Ms. CHAMBLISS. It would really be an expression of interest.

Senator MELCHER. I'll ask Dr. Acker this question, but just let me point out that on our own decision, contrary to what the government of India wanted, and against the recommendation of CARE, we terminated a school lunch program of fairly good magnitude in several of the states of India. I've forgotten, but I think

they've been there at least 25 years. So, I'll ask whether we renewed those properly, as we should have.

I think there is always some confusion when a country exports some commodity, and then they say they are self-sufficient in that commodity. In the case of India exporting wheat, that isn't true at all. Many countries export simply to get hard currency.

Mr. KAY. I agree with that, Senator. China is a case in point, they export corn, but they also import corn.

Senator MELCHER. Are they still exporting cotton?

Mr. KAY. Yes.

Senator MELCHER. I believe they are still importing cotton.

Mr. KAY. Yes, that's correct—buying from us, as a matter of fact.

Senator MELCHER. All right, Bangladesh. Have you got anything going with Bangladesh?

Mr. KAY. We have Title I and II programs in Bangladesh.

Senator MELCHER. Mexico? Bangladesh, by the way, is another country where some people tell you, well, they are self-sufficient. I don't know how you would be self-sufficient with 200 or 300 million people living——

Mr. KAY. I'd be very hesitant to believe that Bangladesh is self-sufficient.

Senator MELCHER. All right, Mexico. Got anything going there?

Mr. KAY. Yes, we have programs in Mexico. We have been selling them a lot of nonfat dry milk; as a matter of fact, just sold 50,000 tons to Mexico yesterday.

Senator MELCHER. Can we get that wheat market back? It was about a million tons a year traditionally. Can we get it back?

Mr. KAY. Well, we continue to work at it, Senator.

Senator MELCHER. You have nothing that's active in that regard?

Mr. POPE. The last time we met with the Mexicans, Senator, they told us that the only reason they imported wheat was for feed purposes now, and they are not importing wheat for bread and milling for human consumption. Now, that's open to question when you get down into the depths of Mexico as to what happens to the wheat. But they say they buy very, very little amounts of wheat.

Senator MELCHER. Senator Bond? We'll get back to that. I want to recognize Senator Bond at this time.

Senator BOND. Thank you, Mr. Chairman. For my edification, I need to have some background information, and I would appreciate your assessment as to the reasons why you are limited in your ability to make these sales or grants or donations of food. Number one, is the problem caused by lack of adequate manpower in FAS; or is it because you have legislatively mandated committees which you must gain the acquiescence of. And secondly, to what extent it is simply a problem of the donee either not asking or not being willing to take on food.

I had some minor dealings with a Ceroilfoods group in the PRC, and I know that decisions are not always forthcoming on any schedule. How should we approach that? To what extent are there problems in each of those areas?

Mr. KAY. Insofar as your first question, Senator, on personnel, it is true that FAS in recent months has become very strapped insofar as personnel resources. Our personnel has declined by over a hundred people in the last few years due to personnel ceilings that

have been imposed not only upon us but upon every Government agency. However, in the 1985 farm bill, we were given 12 new programs to administer. A case in point: we had a small staff administering the cooperator program with which I'm sure you are familiar; that budget ran around some $30 million annually. Then along came the targeted export assistance program of $110 million, and that same little section found itself administering a program of $140 million, then, when you combine the cooperator program and the T money. And so, consequently, it has been a real hardship on them.

Senator BOND. No new people?

Mr. KAY. No new people. Almost to the point where some of our people have some problems feeling that they will not administer the programs well, and they consider themselves vulnerable, particularly when GAO comes in and the OIG comes in, because we like to do things right.

If you remember in the 1978 Agricultural Trade Act, Congress gave us authority to establish 24 trade offices overseas. The Congress forgot along the way to give us any resources to do that. They gave us an initial amount of $600,000. Well, we have tried to do that internally in order to comply with the wishes of the Congress, and we have established 15 trade offices now, but we've manned them with our own personnel and with what we could rake and scrape through regular appropriations.

I must tell you that with the decline in the value of the dollar and the appreciation of the yen and the European currencies we are being eaten alive overseas insofar as financial resources are concerned.

I'm face to face now with the possibility, if we don't get funds restored through the supplemental appropriation that we've asked for—I'm going to have to begin closing offices overseas and bringing them home. It seems to me that in this time when we are trying to emphasize exports—everybody talks about exports, but evidently nobody wants to pay for the resources to get it done. It seems to me that it's a bad time for that to occur.

Secondly, insofar as the bureaucracy—I mentioned to the chairman that there is established in law the Development Coordination Committee which deals with the coordination of all developmental assistance, and part of that is the Subcommittee on Food Aid. Now, the Under Secretary for International Affairs and Commodity Programs at the Department of Agriculture chairs that subcommittee. But it is made up of representatives of all of these other agencies that we discussed a little while ago. And it is to say it's difficult sometimes to reach agreements, and sometimes we do have problems getting early agreements so we can get these P.L. 480 agreements signed as early as possible in the fiscal year, so we can begin to ship out the commodities.

I must say that in recent years it has worked perhaps more smoothly than it has in several instances. Secretary Lyng and Mr. McPherson have a great relationship, and AID has helped us a great deal insofar as overcoming some of the disagreements that we've had with other agencies. Insofar as trade matters, like the export enhancement program—and I should have mentioned a little while ago that one of the programs that we were given under

the farm bill was the export enhancement program in which we are obligated to use $100 million in bonuses out of CCC stocks over the next 3 years, and we've been implementing that program as well with the limited personnel resources.

When those proposals come forward, we certainly cannot make those decisions as to which ones we will announce unilaterally; those are considered by the Trade Policy Review Group, headed up by USTR.

I must say that in the initiatives that we have announced, we have by and far received approval on more than have ever been turned down by the Trade Policy Review Group. And, as the Chairman has pointed out, that is a group that operates on consensus.

Senator BOND. But you would say there has been some bureaucratic hold-up as a result of the——

Mr. KAY. I would be a liar if I denied that, yes.

Senator BOND. To what extent, in the countries which we've discussed, is the problem one of the fact that the ball is in their court, and thus is beyond our ability to pursue it? I gathered from some of your comments that we are unable to do more without the potential donee or the buyer country taking further steps. To what extent is that a problem?

Mr. KAY. Well, we were talking about Title I of P.L. 480 in particular reference to Senator Melcher's question about India. The usual procedure is that the recipient countries will display an interest in a program and come in through the embassy or through our agricultural attache or counsellor, or through their own embassies here in this country, and indicate an interest in becoming a participant in P.L. 480 or section 416, or even the export enhancement program. And we have other programs—our GSM-102 program which is the export credit program is a commercial program from 1 to 3 years' credit; and we now have GSM-103 which can go up to as far as 10 years.

We have our salesmen out in the 70 embassies around the world serving 110 countries through our attaches that you have mentioned. We constantly hear or are in touch with their embassies here trying to spur interest on their parts in some of our programs.

So, it's our full intention that we can implement our GSM-102 program fully. We have authority for $5 billion. We have already announced about $4 billion for GSM-102. We have authority for $500 million under GSM-103, and we've already announced about half that this far into the fiscal year. And sales are beginning to be registered.

We are trying to spur interest in countries around the world, and we feel that the posture is a lot better now. As the Senator pointed out, the value of the dollar has come down, our interest rates have come down, and our prices have come down, and we are becoming more competitive in the world. Everywhere you go, particularly in China, as we were there, they always talked about whether or not you are competitive vis-a-vis other suppliers. We feel that this combination of things will allow us to implement all of our programs to the fullest.

Senator MELCHER. Senator, more to the point, I think, was the comment Tom made in regard to the Philippines. What was the difficulty in getting the 400,000 tons of wheat to that country. I think

you were inquiring what barriers the countries themselves have that block some arrangement we have proposed.

But I think it's fair to say that in the Philippines you are going after an export enhancement which would have suited them to a tee. And if we got it cleared here they would have accepted, is that not correct,?

Mr. KAY. Our other export enhancement program, which we did 450,000 tons of wheat, worked very well in the Philippines; this one would have worked very well, too.

Senator MELCHER. That got sidetracked in the State Department.

Mr. KAY. Well, in the Trade Policy Review Group, yes, sir.

Senator MELCHER. Now, there's one other thing that I think would have fit them to a tee, and that is the section 416 donation of wheat where they would have been allowed to monetize a large portion of it.

Mr. KAY. They can monetize, and they do, Senator.

Senator MELCHER. Yes, but that wasn't offered to them.

Mr. KAY. Well, under the sugar compensation program they got their section 416.

Senator MELCHER. Yes, a small amount. I'm talking about 400,000 tons.

Mr. KAY. Well, when you put together the first sugar tranche and the second sugar tranche, it will be perhaps over 400,000.

Senator MELCHER. All right.

Senator BOND. Was this the one where, even though we were going to give it away to them, they found they could buy it more cheaply?

Mr. KAY. Yes.

Senator BOND. Could you explain that to me?

Mr. KAY. Well, that's why I want to meet with the ambassador when he comes and get him to explain that to me.

Senator MELCHER. I think the hang-up, Tom, is that unless a lot of it is monetized, that is, actually sold on the market where the millers are, it won't be acceptable to them.

Mr. KAY. I know that countries are looking for hard currency, I realize that. It's also, you know, a mystery—we keep giving them the wheat and the price of flour keeps going up. But there is, I guess, that problem which exists because governments are looking for hard currency and they tend to get as much as they can when they monetize, the government monetizes.

Senator MELCHER. Well, knowing that AID group in Manila, I think you might be wise to talk to the ambassador, because I think they are very practical about it. God knows what AID over there has suggested to them would be the result.

Senator BOND. One of the problems that we ran into in the People's Republic of China were very significant complaints about the quality of our grain.

Mr. KAY. Yes.

Senator BOND. To what extent does grain quality impede the deals that you have pursued?

Mr. KAY. Senator, last year I was in I guess 14 different countries around the world, and invariably the subject of grain quality came up. I realize, number one, that we are in a buyers' market where there is plenty of grain to be bought from many sources. So,

when you are in a buyers' market you perhaps always get more complaints than you would otherwise, if you were in a sellers' market.

But I do know that we have had some problems with moisture, reducing the protein quality; we've had trouble with insects; we've had problems with foreign matter; and we've had problems with noxious weeds; and we've also had some problems simply as a result of weather which occur, particularly in the soybean area.

Perhaps the most vociferous of the complaints about the quality of our grain are the——

Senator MELCHER. Could we interrupt you. There is a recorded vote on right now, and Senator Bond and I ought to make that.

Mr. KAY. Wouldn't have you miss it, sir.

Senator MELCHER. We'll stand in recess for approximately 15 minutes.

[Brief recess.]

Senator MELCHER. The subcommittee will come to order. I just have one or two more questions, Tom. We were talking about Mexico, and I think you mentioned you had something going on with them. What was that?

Mr. KAY. I was about to mention the fact that we had both GSM-102 and GSM-103 available for Mexico, some $800,000 million worth.

Senator MELCHER. Which could be wheat, corn, or whatever. And I think you were mentioning——

Mr. KAY. We've also sold to them a lot of dairy cattle as a result of the dairy herd buy-out.

Senator MELCHER. I think you mentioned, Mr. Pope, that it was your understanding that Mexico would only buy wheat for feed purposes, cattle feed?

Mr. POPE. That's correct, Mr. Chairman. Under the, for example, GSM-102 program we make a dollar line of credit available and the Mexicans themselves tell us how they would like that allocated amongst the commodities. Each year as we are discussing this allocation, we bring up the question of wheat. And, in essence, they tell us they are not interested, they only buy wheat for feed purposes and they are just not interested in buying U.S. wheat for that purpose and they would rather allocate the credit line to other commodities. If they were to decide they wanted to buy U.S. wheat, the funding is there and we will be more than happy to accommodate them.

Senator MELCHER. What are their imports of wheat?

Mr. POPE. I don't have those exact figures; we could supply them.

Senator MELCHER. I haven't found them on the list of countries using U.S. wheat for the past 2 years.

Mr. POPE. That is correct.

Senator MELCHER. Yet, I find Australia or Argentina providing wheat. I wonder what we need to do to find out what's wrong with U.S. wheat.

Mr. KAY. We have our annual council sessions with them in April, Senator, and I will ask them that question directly, plus Lee Mears is our attache down there, and he spoke to us yesterday on the phone to say that he was going back to them even this week to see what their problem is.

Senator MELCHER. I have determined from what you've told us so far that not all of the resources that have been mandated for Public Law 480 and section 416 have been fully committed.

Mr. KAY. Not quite. I can say that this year, Senator, we have already programmed almost all of the 500 million tons of section 416 in grain, and it looks like we'll have to do some more.

Senator MELCHER. How about Public Law 480?

Mr. KAY. We have signed 10 agreements already under Title I, and, of course, that still leaves more than 20 to be signed; 60 percent of Title II already.

Senator MELCHER. What's the reason that's so slow? I know you want to do it early in the year, but you are talking about fiscal year, I think, are you not?

Mr. KAY. Fiscal year, yes, sir.

Senator MELCHER. And so we are approaching the halfway point.

Mr. KAY. All of these Public Law 480 agreements have to be negotiated with the countries.

Senator MELCHER. What's the slowdown? That's all I want to know.

Mr. KAY. Well, there are various reasons, Senator, but usually it results in a problem of countries negotiating over self-help measures and things of that kind in Public Law 480. I must say that our record in early sign-ups perhaps has been better over the last 3 years than it has been previously, and we hope to improve on that.

Senator MELCHER. Yes, but it's bad this year.

Mr. KAY. Worse this year than before, last year.

Senator MELCHER. These are all handled through AID?

Mr. KAY. No, they are all handled through the Food Aid Subcommittee, which Mr. Amstutz chairs. And, of course, working with our——

Senator MELCHER. In each case you are working with AID.

Mr. KAY. Sure.

Senator MELCHER. But the bottleneck, then, is this subcommittee?

Mr. KAY. Well, I would say that would be one.

Senator MELCHER. Are there more than one.

Mr. KAY. Well, the countries themselves can be a bottleneck insofar as reaching a full agreement as to what they want to sign.

Senator MELCHER. Just for the record, let me say this. I checked with Kenya and about five other African countries a little over a year ago, about a year and a half ago, and the bottleneck was here. They did not ask for as much as they want because they were told not to ask for as much as they wanted, and they had a very difficult time getting approval from the United States for the amounts that they wanted. So I'll go through that process again.

But we are looking for legislative solutions, if it's necessary. I don't want to pass bills that aren't necessary—God knows we've got enough bills passed in Congress after Congress where the statutes are, to say the least, confusing. But if it's necessary to start stripping out some of this by law, I guess we are capable of doing it.

And so my point is that, if it's necessary to abolish this committee by law, we will do it. I think maybe we are at that point. I don't think we can live the last 2 years of this Reagan administra-

tion without expediting these exports. Wherever the bottlenecks are, we are interested in eliminating them.

My information is it's just the way it was 2 years ago; it isn't the applicant countries' fault. You mentioned that term "self-help," which I think is asking a country to do something before their Public Law 480 agreement can be signed, am I correct?

Mr. KAY. Yes, sir.

Senator MELCHER. All right, thank you very much, Tom.

Mr. KAY. Thank you, Mr. Chairman, always a pleasure to see you.

Senator MELCHER. Thank you, Mary, Mr. Pope.

Now we will call Dr. Duane Acker, Agency Director for Food and Agriculture for the Agency for International Development.

Dr. Acker, we are glad to have you here, and please proceed.

STATEMENT OF DUANE ACKER, AGENCY DIRECTOR FOR FOOD AND AGRICULTURE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Dr. ACKER. Thank you, Mr. Chairman.[1] It's a pleasure to appear before you and to speak about the relationships between the U.S. aid to developing countries and U.S. agriculture. As you are, of course, well aware, Mr. Chairman, the implementation of the statutes relating to food aid is the function of our Agency's Food for Peace and Voluntary Assistance Bureau. That's a different bureau from that in which I function. Assistant Administrator Bloch has, of course, appeared many times before your committee, and I'm sure, as you pursue this topic, you will be inviting her to appear to present testimony.

The serious economic problems in U.S. agriculture have caused some to question the rationale for U.S. technical assistance to agriculture in developing nations. In contrast, there are some who are well-acquainted with the very positive impact that earlier technical aid has had on the economic growth of developing countries and the resultant increase in U.S. exports to those countries.

I will try to hit the highlights, Mr. Chairman, as I move through the written testimony.

You and Mr. Kay have mentioned some of the factors that have contributed to the decline of exports of U.S. commodities since the early 1980's. In addition to those you've mentioned, I would add the reduced economic growth of both the developed and the developing countries, the heavy debt load of low- and middle-income countries, the increased production of many of the developed countries and China (18 to 60 percent since 1975) the high farm subsidies of the EEC countries.

As I move into the discussion of economic growth and U.S. exports, I refer to the table at the top of page 2. Both developed and developing countries have increased their imports of U.S. agriculture products between 1974 and 1985. The sharp drop after 1981 is noted in both groups, but yet the net increase between 1974 and 1985 was larger, both percentagewise and in dollars, among the developing countries. There was an increase of about $5.3 billion net,

[1] See p. 26 for the prepared statement of Mr. Acker.

or 70 percent, in the developing countries, versus an increase of about $4.3 billion, or 31 percent, in the developed countries.

There's also evidence that those countries which increased their per capita production the most rapidly also increased their purchases of U.S. agricultural products the most rapidly, and that fact is one that is not easily believed at first hearing—but there's a good bit of evidence to support it, and some of the rationale presented later underscores it.

I would describe the success story we'd like to see repeated. In 1954, South Korea was an economic basket case. The U.S., in its foreign aid program and along with some other countries, helped small farmers become more productive; we developed short-strawed rice varieties that would use fertilizer more effectively and produce more grain; we helped strengthen their extension systems; we helped build universities. And we also had some impact on government pricing policies. It took a long time, but the results are dramatic. They are summarized in the table in the middle of page 2.

Figures in that table are average annual U.S. agricultural export sales to South Korea, with the early seventies on the left and the early eighties on the right. We moved from providing some Government-supported grain in the early seventies to zero in the early eighties. Commercial sales moved from under $200 million per year in the early seventies to $1.7 billion per year from the United States in the early eighties. This was during a time when South Korea's own agricultural production per person increased about 27 percent.

There are other country successes, but, of course, there are also some disappointments and failures.

I've listed five principles which seem to apply to the developing countries and which are at the same time the reasons for developing the agricultural base of those countries.

The first principle is that poor people, or poor countries, don't buy much. Only those with cash or good credit are the good customers.

Secondly, the most rapid progress in economic growth of developing countries is usually made when that portion of the private sector employing the most workers is strengthened and the productivity of those people is increased. In most developing countries, 50 to 85 percent of the engaged workers work in agricultural production. Therefore, development of agriculture is an essential first step in total country development. It's an essential step to increasing gross national product, wealth, or purchasing power.

Number three: improved nutrition improves productivity, wherever people are. It enhances energy level, ingenuity, and motivation. It occurs first closest, of course, to where the food is produced. But eventually, if that small farm produces a bit more, and not only does the farm family they eat better, but there usually results more product that can go to market. And then the broader population receives some benefit. They become more productive, in retailing, manufacturing, services, or whatever.

Eventually, where we and they can be successful, purchasing power grows, and generates demand for both food and nonfood items.

Number four: as income goes up, diets diversify. With higher income, people tend to want meat or other desired components of the diet. This applies to rural people as well as to the total population. Meat production requires large volumes of coarse grains and protein sources.

As I mentioned earlier, these three principles—two, three, and four—are the reasons for the phenomenon that I described earlier: that the developing countries which increase their per capita food production the most rapidly also increase their imports of U.S. agricultural products the most rapidly.

Number five: as countries develop, they increase both imports and exports. They have to export in order to receive the currency to help finance imports.

A second relationship between development aid and U.S. agriculture that is significant and that we increasingly acknowledge is the technology that flows toward U.S. agriculture, the flow of genetic materials and technology from the developing countries and the international research efforts. With the necessity of U.S. agriculture maintaining and enhancing its worldwide competitiveness, this flow is important. And we've offered a few examples.

The first is, the genes that provide resistance to many of the diseases in grain sorghum hybrids grown on the U.S. Great Plains. A very high proportion of those specific genes came from native sorghum materials in Africa and India via collaborative research involving universities and research institutions in those countries and U.S. universities. Sorghum has been grown in those environments for hundreds of years, and if there is a line of sorghum material or a close relative of sorghum that would be resistant to the diseases, that line is going to be there. It will be growing in the fields or along the roadside, and our scientists and their scientists will track it down. They've even brought several of these to the United States and introduced the material into our hybrid lines.

The same is true for beans in Michigan and other States, as well as for other crops: genes for disease and insect resistance. The same applies to soybeans. We've brought many lines from other countries, not only in the early years of soybean production, but in recent years as well.

In summary, the evidence suggests strongly that it is in the long-term interests of U.S. agriculture for the United States to continue its investment in development aid for Third World countries. Senator, you and the members of your committee so vitally interested in the strength of U.S. agriculture recognize the complementary effects of development efforts of the USDA and efforts in trade negotiations. One of the reasons I was eager and willing to move into this assignment is that I am interested in the long pull. We look backward and see the data I provided in the written testimony; we look forward and see opportunity ahead of us.

Of special importance to U.S. agriculture are the positive impact on exports of this economic growth in developing countries—poor people or poor countries don't buy much. Secondly, the genetic material and technology that flows towards U.S. agriculture is an important byproduct of the development that can help U.S. agriculture compete worldwide.

I'd be pleased, within my abilities, Senator, to respond to any questions.

Senator MELCHER. Doctor, why don't you begin by refreshing me on your background.

Dr. ACKER. I'm a native of western Iowa, have farming interests there. My early career was teaching and research work at Oklahoma State University and Iowa State. I moved to Kansas State as an associate dean in charge of the teaching program in agriculture, then to South Dakota State and Nebraska, heading up the agricultural programs at those land-grant universities. The last 11 years I have been president of Kansas State University.

Senator MELCHER. When did you join AID?

Dr. ACKER. Last July 1.

Senator MELCHER. Well, you came at a very good time. Doctor, I haven't for several years seen a better summary of the situation than what you have presented here in just three and a half pages.

Dr. ACKER. Thank you, sir.

Senator MELCHER. I'm just going to dwell on two points. The situation in developing countries is one where, because of the economic situation of their country, they simply are in need of more food. And the point you make is that if they can improve the economy, they will do the normal thing: their diets will be more diversified and at a better nutritional level, which means purchasing more food.

You mentioned that that does seem to be a contradiction or looks strange, but it's so true.

Secondly, the economic activity that flows from that is both good for them and good for us: they export more of their own products, they import more of our products, including agricultural products.

I want to commend you.

Dr. ACKER. Thank you.

Senator MELCHER. It gives me some hope. Maybe we can work together to do what has to be done legislatively. As I said to Tom Kay, I don't want to trot out new legislation just for the sake of passing new legislation. I think that we probably need some legislation now in order to straighten out whatever deficiencies we might have, but also probably to mandate by law that we streamline this whole operation of exports.

Will you comment on that?

Dr. ACKER. In terms of the need for legislation?

Senator MELCHER. In terms of the need to streamline the whole operation and getting approval and concessions.

Dr. ACKER. I'd have to plead, Mr. Chairman, that my knowledge of the legislation or its implementation is so sparse that to respond would be dangerous. I just don't have the knowledge base.

Senator MELCHER. Well, I find that you and I are seeking exactly the same goal for the same reason. I came to adopt this goal over the last 17 or 18 years, since becoming a Member of the House, only through a series of experiences. I think it's a very practical and necessary goal. And, unfortunately, I've learned over the past 8 to 10 years that the volumes of statutes that are interrelated and tied to the goal have created problems themselves. But we have also allowed problems to develop as a result of regulations from

those statutes that seem now to be insurmountable in the short term.

I'm not sure that we can afford, in 1987 and 1988, to have in operation this interdepartmental committee composed of Agriculture, State, AID, Commerce, Treasury, and OMB. It's built up, based on the statute, and it exists.

And it seems now, that in order to get rid of it we have to pass legislation to mandate the dissolving of it.

I'd like to work with you, Doctor. We think the same way and have the same goals and purposes, and I think maybe you could be helpful in doing whatever is necessary in legislative matters on this. Certainly we are not going to pass legislation unless we can convince Members of the Congress it's not only essential but it's an emergency. And that means we have to have understanding between the key departments. The two most key departments in these matters are State and Agriculture; the rest of them are window dressing. Treasury and Commerce and OMB simply are not involved in the day-to-day operation that we are talking about.

So I'm very delighted to have this testimony and would be glad to work with you in the future.

Just so you know, I visited with Whitehead in December, and he has the same goals as you and I do. I'm not sure if he understands what might be necessary to achieve those goals. But it's good to find out that he's taken the time and has the understanding to view the situation exactly as I do.

I call one thing to your attention: the potential monetization of section 416. It seems to me that through cooperative efforts within the developing country, providing the capital for development that monetization will allow is a very necessary step toward utilizing our food surplus. We've got more food stored up in silos, in elevators, and corn laying on the ground. What town in Iowa are you from?

Dr. ACKER. Out of Atlantic.

Senator MELCHER. Atlantic?

Dr. ACKER. Atlantic, western Iowa, from Sioux City about 120 miles southeast.

Senator MELCHER. I don't think I've ever been in Atlantic, but I'm well familiar with Atlantic because when I was growing up they used to have a red-hot basketball team—and maybe they still do, I don't know.

But I was in Sioux City a little over a week ago and went up to Ashton and Sibley in Osceola County north of there, and I was a little startled and discouraged that we have so much corn laying on the ground. We don't have places to store it inside, and it's covered with visquine and a little wood built up around the sides of it; it seems to me that it invites the rats to take over, and we are going to lose a lot either through getting it wet or getting rats into it, or something. I think it's a great asset to have all this abundance, but if we can't take care of it, it becomes sort of a blight on our conscience. And so I think, for that reason and a lot of other reasons, we had better begin to move it.

All right, thank you very much, Doctor.

Dr. ACKER. Thank you, sir.

Senator MELCHER. We'll include statements by Senator Heflin and Senator Wilson. We'll also include after those remarks a letter received by the subcommittee from the National Milk Producers Federation.[1]

The record will remain open for 2 weeks on this hearing for anyone else who would like to submit any remarks, written remarks, concerning the subjects we've covered, and also to receive the answers to questions that were asked by Senator Bond. I think those questions were asked of the Department of Agriculture. There will be others submitted, and the hearing record will be kept open for the 14 days in order to make them a part of the record, too.

The subcommittee is adjourned.

[Whereupon, at 12:08 p.m., the subcommittee adjourned, subject to call of the Chair.]

[1] See p. 25 for the prepared statement of Senator Heflin; p. 25 for the prepared statement of Senator Wilson; and p. 28 for a letter from the National Milk Producers Federation.

APPENDIX

Statement of Hon. Howell Heflin, a U.S. Senator From Alabama

Mr. Chairman, I want to express my appreciation to you for holding this hearing on the status of American Foreign food assistance programs in relation to agricultural trade. I think it is essential that this Subcommittee, as well as the full Committee, thoroughly review these programs to see that they are fully utilized.

The current U.S. position in agricultural trade is disturbing, to say the least. There is a desperate need to rethink our agricultural trade policy objectives. American agricultural exports have declined drastically in both volume and value since 1980.

During the debate on the farm bill, we were told over and over that we needed an agricultural policy that would allow the U.S. producer to become competitive in world markets. U.S. prices were too high. The dollar was too strong.

Now, Mr. Chairman, commodity prices are lower, the dollar is weaker, but we are still not trading. I should clarify, Mr. Chairman, we are trading, but the U.S. is doing all of the buying.

I heard the former Secretary of Agriculture, John Block, state that the Food Security Act gave the USDA many of the new tools it needed to enhance the exports of U.S. farm products. These new tools, which include Targeted Export Assistance program, Export Enhancement program, and local currency initiatives, will be beneficial only if they are implemented. The final report of the National Commission on Agricultural Trade and Export Policy listed as its second priority recommendation: "Use of all existing tools to expand markets for U.S. agricultural commodities and products".

Mr. Chairman, I look forward to the testimony today of Mr. Tom Kay. I hope the Subcommittee can get an understanding of progress the Foreign Agricultural Service is making with these new tools. I also hope he will be candid enough to recommend any changes that Congress needs to make to improve these programs.

Thank you, Mr. Chairman.

Statement of Hon. Pete Wilson, a U.S. Senator From California

Mr. Chairman, I am pleased that the first and, I, would add, appropriate series of hearings of the Subcommittee on Agricultural Research, Conservation, Forestry and General Legislation will be the Department of Agriculture's foreign assistance programs. These programs are of keen interest to my State as California is the Nation's leading exporter of Agricultural commodities with sales totaling some $2.7 billion in 1985. However, I do not wish to paint a rosy picture here.

For the past two years, the outlook for American agricultural exports has been bleak at best. In fiscal year 1986, American agricultural exports amounted to $26.3 billion. Considering that in 1981 our farmers exported a record breaking $44 billion in agricultural products to the world, last year's number is a painful indicator of U.S. vulnerability. Of course, the prosperity of our farmers depends to a certain extent on macroeconomic forces. But U.S. Agriculture is more often victimized by the blatantly unfair agricultural trade practices of our foreign competitors.

Our agricultural exporters have witnessed an alarming proliferation of trade barriers among many of our trading partners who either cannot afford to import farm products or are pursuing aggressive, export-led growth strategies that shield domestic producers from international competition. For too long there has been very little good news for our farmers and even less reason for hope; however, the trade title of the 1985 farm bill set the stage for a significant increase in farm exports. One of the key actors in this scenario is the targetted export assistance program.

By way of background, Mr. Chairman, during the debate on the 1985 farm bill. I authored a provision of the farm legislation's trade title that authorized the U.S.

Department of Agriculture to distribute $1 billion of funding over a 5-year period to various industries to expand their export sales. This funding, known as "Targetted Export Assist [TEA]," provides market development assistance to commodities which have lost export sales due to unfair trading practices and illegal subsidies of our trading partners.

Although it would be better off if we did not have to resort to these types of federally-funded market development programs, I firmly believe that until other countries are willing to adopt fair trade policies, our Government is justified in providing assistance to our producers who have lost markets due to illegal trade practices of foreign competitors. The TEA program puts our trading partners on notice that the United States Government is prepared to defend the worldwide markets of our Nation's farmers.

During fiscal year 1986, the Department of Agriculture approved $110 million to various industries across the Nation, and the success of the TEA program has been phenomenal. For example, the canned peach industry exported 560,000 cases of peaches, valued at $10.4 million between 1984-85. Without TEA funds, the industry anticipated a loss of $2.8 million or roughly a 20-percent reduction in exports to 450,000 cases—the lowest level in twenty-five years. However, with $2.5 million in targetted export assistance, the canned peach industry was able to increase exports in 1985-86 by 23 percent, resulting in $11.7 million in sales. In Japan alone, the industry increased exports by some 200,000 cases.

It is understandable that I was shocked, indeed dumbfounded, to learn that the administration has recommended a $30 million reduction in TEA funds for fiscal year 1988. This is especially disturbing after listening to the President's State of the Union address, and yesterday to the Secretary of Agriculture's remarks before the full committee, in which the importance of expanding our Nation's export markets abroad was stressed. Clearly, the targetted export assistance program has been a proven success in achieving this goal. Accordingly, I will be asking members of this committee to join me in my efforts to ensure that TEA funding is restored, if not increased, over current spending levels.

Viewing the next four years in their best light, we will witness the unfolding of a dramatic success story as American agriculture returns to the world markets. This will not be possible without a commitment by the Department of Agriculture to continue to provide, not cut, our resources that are devoted to foreign assistance programs. I believe that the Congress has a responsibility to oversee the Department in this regard, and I am pleased that we will have the opportunity to discuss foreign assistance in this subcommittee this year.

STATEMENT OF DR. DUANE ACKER, AGENCY DIRECTOR FOR FOOD AND AGRICULTURE, AGENCY FOR INTERNATIONAL DEVELOPMENT

My purpose is to present and discuss some of the positive relationships between United States aid to developing countries and United States agriculture.

The serious economic problems in U.S. agriculture have caused some to question the rationale for U.S. technical assistance to agriculture in developing nations. In contrast, there are some who are well acquainted with the very positive impact that earlier technical aid had on the economic growth of developing countries and the resultant increase in U.S. exports to those countries.

Many factors have contributed to the decline in exports of U.S. commodities since 1980, including:

1. Prolonged high value of the dollar.
2. Reduced economic growth.
3. Heavy debt load of low and middle income countries.
4. Increased production in Australia, Argentina, Canada, EEC countries and China (18 to 60 percent since 1975).
5. High farm subsidies in EEC countries.
6. U.S. grain prices above world levels.
7. Import duties and other constraints.

The U.S. will spend less than nine billion dollars in FY 87 on development and food aid, less than 1% of the U.S. federal budget.

I look at the nine billion dollars as: (a) humanitarian, (b) fostering stability—country, regional, world, (c) helping maintain political friendships, and (d) developing customers—POOR PEOPLE DON'T BUY MUCH.

ECONOMIC GROWTH AND U.S. EXPORTS

Both developed and developing countries increased their imports of U.S. agricultural products between 1974 and 1985. The sharp drop after 1981 is noted, but the net increase between 1974 and 1985 was larger, both percentage-wise and in dollars, among the developing countries.

U.S. AGRICULTURAL EXPORTS, 1974–85

[In billions of dollars]

	To developing countries	To developed countries
1974	$7.61	$13.95
1981	18.24	25.54
1985	12.92	18.27
Increase	[1] 5.3	[2] 4.3

[1] Net increased 70 percent.
[2] Net increased 31 percent.
Source: Kellogg, et al. 1986.

There is also evidence that those countries which increased their per capita production of agricultural commodities the most rapidly also increased their purchases of U.S. agricultural products the most rapidly.

Let me describe the success story we'd like to see repeated. In 1954, South Korea was an economic basket case. The United States helped small farmers become more productive. We helped develop short-strawed rice varieties that would use fertilizer and produce more grain. We helped strengthen the extension system. We helped build universities. We helped develop government pricing policies that would stimulate food production by small farmers. It took a long time. But look at the results.

U.S. AGRICULTURAL EXPORTS TO SOUTH KOREA

	Average—	
	1971–73	1980–83
Govt. supported	$171 million	
Commercial	197 million	$1.7 billion

Per capita agricultural production increased 27 percent.
Source: Kellogg, 1985.

There are other country successes; there are also some disappointments and failures.

There are five principles that apply to developing Third World countries, which are, at the same time, reasons for developing the agricultural base of those countries:

1. Poor people don't buy much. Only those with cash or good credit are good customers.

2. The most rapid progress in the economic growth of developing countries is usually made when that portion of the private sector employing the most workers is strengthened and the productivity of those people is increased. In most developing countries, 50 to 85 percent of engaged workers work in agricultural production. Therefore, development of agriculture is an essential first step to total country development, to increase gross national product, wealth, or purchasing power.

3. Improved nutrition improves productivity. It enhances energy level, ingenuity and motivation. Improved nutrition usually occurs first closest to where the food is produced. Families on the small farms that produce more eat better. There usually results more product going to market. The broader population then benefits. That broader population becomes productive, in retailing, manufacturing, or services. Purchasing power grows, generates demand for both food and non-food items.

4. As income goes up, diets diversify. With higher income, people want meat. This applies to the rural family and also to the total population. Meat production requires large volumes of coarse grains and protein sources. (These previous three principles are the reasons for the phenomenon I earlier described, that those devel-

oping countries which increased per capita food production the most rapidly, increased their imports of U.S. agricultural products most rapidly.)

5. As countries develop, they increase both imports and exports. Exports are essential, to help finance imports.

TECHNOLOGY FOR U.S. AGRICULTURE

There is another relationship of our development aid effort to U.S. agriculture—the flow of genetic materials and technology from developing countries and international research efforts. With the necessity of U.S. agriculture maintaining and enhancing its world-wide competitiveness, this flow is important. Following are a few examples of this flow.

Many of the genes that provide resistance to downy mildew, head smut, anthracnose, charcoal rot, and grain rot in grain sorghum hydrids grown on the U.S. Great Plains came from native sorghum materials in Africa and India via collaborative research involving African, Indian, and U.S. research institutions and financed in part by AID.

Beans now produced in Michigan and other states have disease and insect resistance, higher yield potential and improved nutritional quality as the result of a similar collaborative research project involving African and U.S. universities.

U.S. bean seed free of common bean mosaic virus has resulted from the virus antisera and sero-detection procedures developed in this project. The procedures are now in common use in the U.S.

SUMMARY

The evidence suggests strongly that it is in the long-term interests of U.S. agriculture for the United States to continue its investment in development aid for Third World Countries.

Development aid is an investment: (a) in humanity, (b) in country, region, and world stability, (c) in helping maintain political friendships, and (d) in developing the economies of the Third World.

Of special importance to U.S. agriculture are (1) the positive impact on exports of this economic growth—POOR PEOPLE DON'T BUY MUCH, and (2) the genetic material and technology that flows to U.S. agriculture as a by-product of development programs and that can help it compete worldwide.

NATIONAL MILK PRODUCERS FEDERATION,
Arlington, VA, February 4, 1987.

Hon. JOHN MELCHER,
U.S. Senate, Washington, DC.

DEAR SENATOR MELCHER: I am writing to express my concern over the prolonged delay in issuing implementing regulations for the Dairy Export Incentive Program by the U.S. Department of Agriculture.

As you recall, your proposal for such a program was adopted as Section 153 of the Food Security Act of 1985, P.L. 99-198. Your plan directed USDA to establish and operate an export incentive program providing payments, in cash or commodities, to exporters for the purpose of expanding commercial export sales of U.S. dairy products.

On March 3, 1986, the department announced in the *Federal Register* that the Commodity Credit Corporation would issue an announcement containing the terms and conditions of the program and an invitation inviting U.S. exporters to submit competitive bids for a CCC bonus. The announcement was to specify the eligible destinations for such products and the method which would be used to determine the value of the CCC bonus dairy products.

Now, nearly one year later, we are still waiting for the announcement from USDA. We at National Milk Producers Federation, as well as other dairy industry organizations, have had numerous discussions with department officials about this program and have patiently waited for USDA to begin accepting bids. However, after repeatedly being advised that program details would be announced soon, we have serious concerns over the department's commitment to this program.

On behalf of the nation's dairy farmers, we would appreciate your assistance in urging USDA to expeditiously implement the Dairy Export Incentive Program so that interested exporters could expand their sales of U.S. Dairy products on the

world market and uncommitted CCC inventories may be further reduced to help feed a hungry world.

Sincerely,

JAMES C. BARR, CAE,
Chief Executive Officer.

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